1120, 1120A/inst./1989

1989

Department of the Treasury
Internal Revenue Service

Instructions for Forms 1120 and 1120-A

(Section references are to the Internal Revenue Code unless otherwise noted.)

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file the following forms will vary depending on individual circumstances. The estimated average times are:

Form	Recordkeeping	Learning about the law or the form	Preparing the form	Copying, assembling, and sending the form to IRS
1120	68 hrs., 38 min.	39 hrs., 10 min.	69 hrs., 55 min.	8 hrs., 2 min.
1120-A	43 hrs., 17 min.	23 hrs., 43 min.	42 hrs., 13 min.	4 hrs., 50 min.
Sch. D (1120)	6 hrs., 28 min.	3 hrs., 29 min.	6 hrs., 32 min.	48 min.
Sch. PH (1120)	15 hrs., 47 min.	7 hrs., 11 min.	9 hrs., 38 min.	32 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making these forms more simple, we would be happy to hear from you. You can write to the **Internal Revenue Service,** Washington, DC 20224, Attention: IRS Reports Clearance Officer, T:FP; or the **Office of Management and Budget,** Paperwork Reduction Project (1545-0123), Washington, DC 20503.

Voluntary Contributions To Reduce the Public Debt

Quite often inquiries are received about how to make voluntary contributions to reduce the public debt. A corporation may contribute by enclosing with the tax return a check made payable to "Bureau of the Public Debt." Voluntary contributions to reduce the public debt are deductible subject to the rules and limitations for charitable contributions.

General Instructions

Note: *In addition to those publications listed throughout these instructions, taxpayers may wish to get:* ***Publication 534,*** *Depreciation;* ***Publication 535,*** *Business Expenses; and* ***Publication 542,*** *Tax Information on Corporations.*

A. Purpose of Form

In general, **Form 1120,** U.S. Corporation Income Tax Return, and **Form 1120-A,** U.S. Corporation Short-Form Income Tax Return, are used to report income, gains, losses, deductions, and credits of U.S. corporations.

B. Filing Form 1120 and Form 1120-A

Who Must File

Domestic corporations not required to file a special return (see below), must file Form 1120, unless they qualify to file Form 1120-A. All domestic corporations (including corporations in bankruptcy) must file, whether or not they have any taxable income, unless exempt under section 501.

Note: *If an organization more nearly resembles a corporation than a partnership or trust, it will be considered an association taxed as a corporation.*

Who May File Form 1120-A

Note: *More corporations will now qualify to file Form 1120-A due to an increase in the ceiling on gross receipts, total income, and total assets. See below.*

Form 1120-A may be filed by a corporation if it meets **all** of the following requirements:

- Its gross receipts (line 1a on page 1) must be under $500,000.
- Its total income (line 11 on page 1) must be under $500,000.
- Its total assets (line 12, column (b), Part II on page 2) must be under $500,000.
- It does not have any ownership in a foreign corporation.
- It does not have foreign shareholders who own, directly or indirectly, 50% or more of its stock.
- It is not a member of a controlled group of corporations (sections 1561 and 1563).
- It is not a personal holding company (sections 541 through 547).
- It is not a consolidated corporate return filer.
- It is not a corporation undergoing a dissolution or liquidation.
- It is not filing its final tax return.
- Its only dividend income is from domestic corporations (none of which represents debt-financed securities), and those dividends qualify for the 70% deduction.
- It has no nonrefundable tax credits other than the general business credit and the credit for prior year minimum tax.
- It is not subject to environmental tax under section 59A.
- It has no liability for interest under section 453(l)(3) or 453A(c) (relating to certain installment sales) or installment payments of tax under section 453C or 1363(d).
- It is not required to file a special tax return as stated below under **Special Returns for Certain Organizations.**

Special Returns for Certain Organizations

Certain organizations, listed below, have to file special returns.

- Foreign corporations other than life and property and casualty insurance companies filing Forms 1120L and 1120-PC: File Form 1120F.
- Foreign sales corporations (section 922): File Form 1120-FSC.
- Life insurance companies (section 801): File Form 1120L.
- Property and casualty insurance companies (section 831): File Form 1120-PC.
- Farmers' cooperatives (section 1381): File Form 990-C.
- Exempt organizations with unrelated trade or business income: File Form 990-T.
- S corporations (section 1361): File Form 1120S.
- Interest charge domestic international sales corporations (section 992): File Form 1120-IC-DISC.
- Political organizations (section 527): File Form 1120-POL.
- Condominium management associations and residential real estate management associations that elect to be treated as homeowners associations under section 528: File Form 1120-H.
- Funds set up to pay for nuclear decommissioning costs (section 468A): File Form 1120-ND.
- Designated settlement funds (section 468B): File Form 1120-DF.
- Real estate investment trusts (section 856): File Form 1120-REIT.
- Entities that elect to be treated as real estate mortgage investment conduits (REMICs) under section 860D: File Form 1066.
- Regulated investment companies (section 851): File Form 1120-RIC.

When To File

In general, a corporation must file its income tax return by the 15th day of the 3rd month after the end of the tax year. A new corporation filing a short-period return must generally file by the 15th day of the 3rd month after the short period ends. A corporation that has dissolved must generally file by the 15th day of the 3rd month after the date it dissolved.

T22.51:

Extension.—File **Form 7004,** Application for Automatic Extension of Time To File Corporation Income Tax Return, to request an automatic 6-month extension of time to file.

Period covered.—File the 1989 return for calendar year 1989 and fiscal years that begin in 1989 and end in 1990. For a fiscal year, fill in the tax year space at the top of the form.

Note: *The 1989 Form 1120 may also be used if: (1) the corporation has a tax year of less than 12 months that begins and ends in 1990; and (2) the 1990 Form 1120 is not available by the time the corporation is required to file its return. However, the corporation must show its 1990 tax year on the 1989 Form 1120 and incorporate any tax law changes that are effective for tax years beginning after December 31, 1989.*

Initial return, final return, and change in address.—If this is the corporation's first return, check the "Initial return" box in item G, Form 1120, or item E, Form 1120-A. If the corporation ceases to exist, check the "Final return" box in item G and **do not file Form 1120-A;** use Form 1120. Indicate a change in address by checking the appropriate box.

Where To File

Use the preaddressed envelope. If you do not use the envelope, file your return at the applicable IRS address listed below.

If the corporation's principal business, office, or agency is located in ▼	Use the following Internal Revenue Service Center address ▼
New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Florida, Georgia, South Carolina	Atlanta, GA 39901
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Minnesota, Missouri, Wisconsin	Kansas City, MO 64999
Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania, Virginia	Philadelphia, PA 19255

Corporations having their principal place of business outside the United States or claiming a possessions tax credit (section 936) must file with the Internal Revenue Service Center, Philadelphia, PA 19255.

The separate income tax returns of a group of corporations located in several Service Center regions may be filed with the Service Center for the area in which the principal office of the managing corporation that keeps all the books and records is located.

Signature

The return must be signed and dated by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or any other corporate officer (such as tax officer) authorized to sign. A receiver, trustee, or assignee must sign and date any return required to be filed on behalf of a corporation.

If a corporate officer filled in the corporate tax return, the Paid Preparer's space under "Signature of officer" should remain blank. If someone prepares the tax return and does not charge the corporation, that person should not sign the return. Certain others who prepare the tax return should not sign. For example, a regular, full-time employee of the corporation, such as a clerk, secretary, etc., should not sign.

Generally, anyone who is paid to prepare the tax return must sign it and fill in the other blanks in the Paid Preparer's Use Only area of the return.

The preparer required to sign the return **must** complete the required preparer information and:

- Sign it, by hand, in the space provided for the preparer's signature. (Signature stamps or labels are not acceptable.)
- Give a copy of the tax return to the taxpayer in addition to the copy filed with IRS.

Tax return preparers should be familiar with their responsibilities. See **Publication 1045,** Information for Tax Practitioners, for more details.

C. Figuring and Paying the Tax

1. Accounting

Accounting methods.—Taxable income must be computed using the method of accounting regularly used in keeping the corporation's books and records. In all cases, the method adopted must clearly reflect taxable income. See section 446.

Generally, corporations engaged in farming operations must use the accrual method of accounting. See section 447 for exceptions.

Generally, corporations (other than qualified personal service corporations) are required to use the accrual method of accounting if their average annual gross receipts are more than $5,000,000. See section 448(c). A corporation changing to the accrual method because of this provision must complete **Form 3115,** Application for Change in Accounting Method, and attach it to Form 1120 for the year of change. The corporation must also show on a statement accompanying Form 3115 the period over which the section 481(a) adjustment will be taken into account and the basis for that conclusion. See section 448 and Temporary Regulations sections 1.448-1T(g) and 1.448-1T(h) for more information. Include the amount reportable as income in 1989 under section 481(a) on line 10, page 1.

For long-term contracts (except certain real property construction contracts), entered into after February 28, 1986, taxpayers must elect either the percentage of completion method or the percentage of completion-capitalized cost method. See section 460; Notice 87-61, 1987-2 C.B. 370; and Notice 88-66, 1988-1 C.B. 552; for more information.

Unless the law specifically permits otherwise, the corporation may change the method of accounting used to report taxable income in earlier years (for income as a whole or for any material item) only by first getting consent on Form 3115. Also see **Publication 538,** Accounting Periods and Methods.

Change in accounting period.—Generally, before changing an accounting period, the Commissioner's approval must be obtained (Regulations section 1.442-1) by filing **Form 1128,** Application for Change in Accounting Period. Also see Publication 538.

Personal service corporations as defined in Temporary Regulations section 1.441-4T (see the instructions for Item C on page 5) must adopt a calendar year unless:

(1) the corporation can establish to the satisfaction of the Commissioner that there is a business purpose for having a different tax year, or

(2) the corporation elects under section 444 to have a tax year other than a calendar year.

Personal service corporations that wish to establish a business purpose for having a different tax year should see Rev. Rul. 87-57, 1987-2 C.B. 117, for more information. Also see Rev. Proc. 87-32, 1987-2 C.B. 396, for procedures to use in adopting, retaining, or changing the corporation's tax year. Personal service corporations that wish to adopt or retain a noncalendar tax year must file requests to do so on Form 1128 in accordance with the procedures outlined in Rev. Proc. 87-32.

Personal service corporations that wish to elect under section 444 to have a tax year other than a calendar year must file **Form 8716,** Election To Have a Tax Year Other Than a Required Tax Year. Generally, Form 8716 must be filed by the earlier of: (1) the 15th day of the 5th month following the month that includes the 1st day of the tax year for which the election will be effective, or (2) the due date (not including extensions) of the income tax return resulting from the section 444 election. Electing corporations are subject to minimum distribution requirements under section 280H(c) for each year the election is in effect. If the corporation fails to make the required minimum distributions, the deduction allowable for certain amounts paid to employee-owners is limited to a maximum deductible amount under section 280H(d). Amounts not allowed as a deduction for the tax year are carried over to the following tax year. Complete **Schedule H (Form 8716),** Section 280H Limitations for a Personal Service Corporation (PSC), to figure the required minimum distributions and the maximum deductible amount, if applicable.

2. Rounding Off to Whole-Dollar Amounts

The corporation may show the money items on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next higher dollar.

3. Depositary Method of Tax Payment

The corporation must pay the tax due in full when the return is filed but no later than the 15th day of the 3rd month after the end of the tax year.

Deposit corporation income tax payments (and estimated tax payments) with a Federal Tax Deposit Coupon (**Form 8109**). Be sure to darken the "1120" box on the coupon. Make these tax deposits with either a financial institution qualified as a depositary for Federal taxes or the Federal Reserve bank or branch servicing the geographic area where the corporation is located. Do not submit deposits directly to an IRS office; otherwise, the corporation may be subject to a failure to deposit penalty. Records of deposits will be sent to IRS for crediting to the corporation's account. See the instructions contained in the coupon book (Form 8109) for more information.

To help ensure proper crediting to your account, write your employer identification number, "Form 1120," and the tax period to which the deposit applies on your check or money order.

To get more deposit coupons, use the reorder form (**Form 8109A**) provided in the coupon book.

For more information concerning deposits, see **Publication 583**, Taxpayers Starting a Business.

4. Backup Withholding

If the corporation has had income tax withheld from any payments it received because, for example, it failed to give the payer its correct employer identification number, it may claim a credit on Form 1120 (or 1120-A) for the total amount withheld. This type of withholding is called "backup withholding". Show the amount withheld in the blank space in the right hand column between lines 31 and 32h, page 1, Form 1120 and label the amount as "backup withholding." Also include the amount in the total for line 32h. On Form 1120-A, show the amount withheld on the dotted line to the left of line 28h, page 1, and label the amount as "backup withholding". Also include the amount in the total for line 28h.

5. Estimated Tax

Generally, a corporation must make estimated tax payments if it can expect its estimated tax (income tax minus credits) to be $500 or more. Use **Form 1120-W**, Corporation Estimated Tax, as a worksheet to compute estimated tax. Use the deposit coupons (Forms 8109) in making deposits of estimated tax.

If a corporation is the beneficiary of a trust, and the trust makes a section 643(g) election to credit its estimated tax payments to its beneficiaries, include the corporation's share of the estimated tax payment in the total amount entered on line 32b, Form 1120. In the blank space to the left of the entry space for line 32b, write "T" and the amount attributable to it. On Form 1120-A, include the corporation's share of the section 643(g) payment on line 28b and identify it as shown above for Form 1120.

If the corporation overpaid estimated tax, it may be able to get a "quick refund" by filing **Form 4466**, Corporation Application for Quick Refund of Overpayment of Estimated Tax. The overpayment must be both: **(1)** at least 10% of expected income tax liability, and **(2)** at least $500. To apply, file Form 4466 after the end of the tax year, but before the 16th day of the 3rd month thereafter, and before the corporation files its tax return.

6. Timing Change in Deducting Accrued Expenses

Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year that all events have occurred that determine the liability, and the amount of the liability can be figured with reasonable accuracy. However, generally all the events that establish liability for the amount are treated as occurring only when economic performance takes place. There are exceptions for recurring items. See section 461(h).

7. Rule of 78's Not an Acceptable Method of Figuring Interest

Taxpayers are reminded that, generally, the Rule of 78's is not an acceptable method for computing interest income and expense. Anyone using the Rule of 78's should see Revenue Procedures 84-27, 84-28, 84-29, and 84-30, (which are in Cumulative Bulletin 1984-1) to change their method.

D. Interest and Penalties

Interest and penalty charges are described below. If a corporation files late or fails to pay the tax when due, it may be liable for penalties unless it can show that failure to file or pay was due to reasonable cause and not willful neglect.

1. Interest.—Interest is charged on taxes not paid by the due date, even if an extension of time to file is granted. Interest is also charged on penalties imposed for failure to file, negligence, fraud, gross valuation overstatements, and substantial understatements of tax from the due date (including extensions) to the date of payment. The interest charge is figured at a rate determined under section 6621.

2. Late Filing of Return.—A corporation that fails to file its return when due (including extensions of time for filing) may be subject to a penalty of 5% a month or fraction of a month, up to a maximum of 25%, for each month the return is not filed. The penalty is imposed on the net amount due. The minimum penalty for failure to file a tax return within 60 days of the due date for filing (including extensions) is the lesser of the underpayment of tax or $100.

3. Late Payment of Tax.—Generally, the penalty for not paying tax when due is ½ of 1% of the unpaid amount, up to a maximum of 25%, for each month or fraction of a month the tax remains unpaid. The penalty is imposed on the net amount due.

4. Underpayment of Estimated Tax.—A corporation that fails to make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. In general, to avoid the estimated tax penalty, the corporation must make estimated tax payments of at least the smaller of 90% of the tax shown on the return or 100% of its prior year's tax. See section 6655 for details and exceptions.

Form 2220, Underpayment of Estimated Tax by Corporations, is used to see if the corporation owes a penalty and to figure the amount of the penalty. Generally, the corporation does not have to file this form because IRS can figure the amount of any penalty and bill the corporation for it. However, you must complete and attach Form 2220 even if the corporation does not owe the penalty if: **(a)** the annualized income or adjusted seasonal installment method is used, or **(b)** the corporation is a "large corporation" computing its first required installment based on the prior year's tax. If you attach Form 2220, be sure to check the box on line 33, Form 1120, or line 29, Form 1120-A, and enter the amount of any penalty on this line.

5. Overstated Tax Deposits.—If deposits are overstated, the corporation may be subject to a penalty of 25% of the overstated deposit claim. See section 6656(b).

6. Other Penalties.—There are also penalties that can be imposed for negligence, substantial understatement of tax, and fraud. See sections 6653 and 6661.

E. Other Forms, Returns, Schedules, and Statements That May Be Required

1. Forms

The corporation may have to file any of the following:

Forms W-2 and **W-3,** Wage and Tax Statement; and Transmittal of Income and Tax Statements.

Form W-2P, Statement for Recipients of Annuities, Pensions, Retired Pay, or IRA Payments.

Form 966, Corporate Dissolution or Liquidation.

Forms 1042 and **1042S,** Annual Withholding Tax Return for U.S. Source Income of Foreign Persons; and Foreign Person's U.S. Source Income Subject to Withholding. Use these forms to report and transmit withheld tax on payments or distributions made to nonresident alien individuals, foreign partnerships, or foreign corporations to the extent such payments or distributions constitute gross income from sources within the U.S. (see sections 861 through 865). For more information, see sections 1441 and 1442, and **Publication 515,** Withholding of Tax on Nonresident Aliens and Foreign Corporations.

Form 1096, Annual Summary and Transmittal of U.S. Information Returns.

Form 1098, Mortgage Interest Statement. This form is used to report the receipt from any individual of $600 or more of mortgage interest in the course of the corporation's trade or business for any calendar year.

Forms 1099-A, B, DIV, INT, MISC, OID, PATR, R, and **S.** Information returns for reporting abandonments, acquisitions through foreclosure, proceeds from broker and barter exchange transactions, certain dividends and distributions, interest payments, payments for certain fishing boat crew members, medical and dental health care payments, direct sales of consumer

goods for resale, miscellaneous income payments, nonemployee compensation, original issue discount, patronage dividends, total distributions from profit-sharing plans, retirement plans, individual retirement arrangements, insurance contracts, etc., and proceeds from real estate transactions. Also use these returns to report amounts that were received as a nominee on behalf of another person.

For more information, see **Publication 937**, Business Reporting.

Note: *Every corporation must file information returns if, in the course of its trade or business, it makes payments of rents, commissions, or other fixed or determinable income (see section 6041) totaling $600 or more to any one person during the calendar year.*

Form 5452, Corporate Report of Nondividend Distributions.

Form 5498, Individual Retirement Arrangement Information. Use this form to report contributions (including rollover contributions) to an individual retirement arrangement (IRA) and the value of an IRA or simplified employee pension account.

Form 5713, International Boycott Report, for persons having operations in or related to "boycotting" countries. In addition, persons who participate in or cooperate with an international boycott may have to complete Schedule A or Schedule B and Schedule C of Form 5713 to compute their loss of the following items: the foreign tax credit, the deferral of earnings of a controlled foreign corporation, IC-DISC benefits, and FSC benefits.

Form 8264, Application for Registration of a Tax Shelter. It is used by tax shelter organizers to register tax shelters with the IRS, for the purpose of receiving a tax shelter registration number.

Form 8271, Investor Reporting of Tax Shelter Registration Number. It is used by taxpayers who have acquired an interest in a tax shelter, which is required to be registered, to report the tax shelter's registration number. Form 8271 must be attached to any tax return (including an application for tentative refund (Form 1139) and an amended return (Form 1120X)) on which a deduction, credit, loss, or other tax benefit attributable to a tax shelter is taken or any income attributable to a tax shelter is reported.

Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments. This form is generally required to be filed by issuers of public offerings of debt instruments within 30 days of the issuance of the debt instrument.

Form 8300, Report of Cash Payments Over $10,000 Received in a Trade or Business. Generally, this form is used to report the receipt of more than $10,000 in cash or foreign currency in one transaction (or a series of related transactions).

Form 8594, Asset Acquisition Statement, is to be filed by both the purchaser and seller of a group of assets constituting a trade or business if goodwill or a going concern value attaches, or could attach, to such assets and if the purchaser's basis in the assets is determined only by the amount paid for the assets.

Form 8621, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund. A corporation that was a shareholder in a passive foreign investment company (as defined in section 1296) at any time during the tax year must complete and attach this form to its return.

Form 8697, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts. Use this form to figure the interest due or to be refunded under the look-back method of section 460(b)(3) on certain long-term contracts entered into after February 28, 1986, that are accounted for under either the percentage of completion-capitalized cost method or the percentage of completion method.

Form 8810, Corporate Passive Activity Loss and Credit Limitations. Closely held corporations and personal service corporations, which are subject to the passive activity limitations of section 469, use this form to compute their allowable passive activity loss and credit.

2. Consolidated Return

The parent corporation of an affiliated group of corporations must attach **Form 851,** Affiliations Schedule, to the consolidated return. For the first year a consolidated return is filed, each subsidiary must attach **Form 1122,** Authorization and Consent of Subsidiary Corporation to be Included in a Consolidated Income Tax Return.

File supporting statements for each corporation included in the consolidated return. Use columns to show the following, both before and after adjustments:

- Items of gross income and deductions.
- A computation of taxable income.
- Balance sheets as of the beginning and end of the tax year.
- A reconciliation of income per books with income per return.
- A reconciliation of retained earnings.

Attach consolidated balance sheets and a reconciliation of consolidated retained earnings.

3. Statements

Stock ownership in foreign corporations.—Attach the required statement to Form 1120 if the corporation owned 5% or more in value of the outstanding stock of a foreign personal holding company and the corporation was required to include in its gross income any undistributed foreign personal holding company income from a foreign personal holding company. See section 551(c).

A corporation that controls a foreign corporation; or that is a 10%-or-more shareholder of a controlled foreign corporation; or acquires, disposes of, or owns 5% or more ownership in the outstanding stock of a foreign corporation, may have to file **Form 5471,** Information Return with Respect to a Foreign Corporation.

A domestic corporation or a foreign corporation that is engaged in a trade or business in the United States and is controlled by a foreign person may have to file **Form 5472,** Information Return of a Foreign-Owned Corporation.

Transfers to a corporation controlled by the transferor.—If a person receives stock or securities of a corporation in exchange for property, and no gain or loss is recognized under section 351, the person (transferor) and the transferee must attach to their respective tax returns the information required by Regulations section 1.351-3.

4. Amended Return

Use **Form 1120X,** Amended U.S. Corporation Income Tax Return, to correct any error in a previously filed Form 1120 or Form 1120-A.

5. Financial Statements

A corporation is not required to complete Schedules M-1 and M-2 (Form 1120 only) if the corporation's total assets at the end of the tax year (line 15, column (d) of Schedule L, Form 1120) are less than $25,000.

6. Attachments

Attach **Form 4136,** Computation of Credit for Federal Tax on Fuels, after page 4, Form 1120, or page 2, Form 1120-A. Attach schedules in alphabetical order and other forms in numerical order after the Form 4136.

In order to process the return we ask that you complete every applicable entry space on Form 1120. Please do not attach statements and write "See attached" in lieu of completing the entry spaces on Form 1120.

If more space is needed on the forms or schedules, attach separate sheets indicating at the top of each attachment the form number or schedule letter of the form or schedule being continued. Also, show the same information called for on the form in the same order as on the printed forms. **Be sure to show totals on the printed forms.** Please use sheets that are the same size as the forms and schedules. Attach these separate sheets after all the schedules and forms. Also, put the corporation's name and employer identification number (EIN) on each sheet.

F. Additional Information

Be sure to answer questions H through R on page 3, Form 1120, or questions G through L on page 2, Form 1120-A. The instructions that follow are keyed to these questions.

1. Question I(2)(c), Form 1120 only

U.S. person.—The term "U.S. person" means:

1. A citizen or resident of the United States;
2. A domestic partnership;
3. A domestic corporation; or
4. Any estate or trust (other than a foreign estate or trust within the meaning of section 7701(a)(31)).

"Owner's country," for individuals, is the owner's country of residence. For all others, it is the country where incorporated, organized, created, or administered.

2. Question K

Foreign financial accounts.—Check the "Yes" box if either **a** or **b** below applies to the corporation; otherwise, check the "No" box:

a. At any time during the year the corporation had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account); AND

- The combined value of the accounts was more than $10,000 at any time during the year; AND
- The account was NOT with a U.S. military banking facility operated by a U.S. financial institution.

b. The corporation owns more than 50% of the stock in any corporation that would answer "Yes" to item **a** above.

Get form **TD F 90-22.1,** Report of Foreign Bank and Financial Accounts, to see if the corporation is considered to have an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account).

If "Yes" is checked for this question, file form TD F 90-22.1 by June 30, 1990, with the Department of the Treasury at the address shown on the form. Form TD F 90-22.1 is not a tax return, so do not file it with Form 1120.

Form TD F 90-22.1 may be obtained from IRS Forms Distribution Centers.

Also, if "Yes" is checked for this question, write the name of the foreign country or countries. Attach a separate sheet if more space is needed.

3. Question Q, Form 1120, and Question I, Form 1120-A

Report any tax exempt interest received or accrued in the space provided. Include any exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company.

Specific Instructions

Item C. Personal service corporation.—The term "personal service corporation" means a corporation whose principal activity during the testing period for the tax year is the performance of personal services that are substantially performed by employee-owners who own more than 10% of the fair market value of the corporation's outstanding stock as of the last day of the testing period for the tax year.

The testing period for a tax year is the tax year preceding such tax year, except for a new corporation. The testing period for a new corporation (one in its first tax year) is the period beginning on the first day of its first tax year and ending on the earlier of the last day of its first tax year or the last day of the calendar year in which the first tax year began.

Activities of the taxpayer that are treated as the performance of personal services are limited to activities of the taxpayer that involve the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting (as such fields are defined in Temporary Regulations section 1.448-1T).

Personal services are substantially performed by employee-owners if more than 20% of the corporation's compensation cost for the testing period attributable to the performance of personal services is attributable to personal services performed by employee-owners.

A person is considered to be an employee-owner if the person is an employee of the corporation on any day of the testing period and the person owns any outstanding stock of the corporation on any day of the testing period. Stock ownership is determined under the attribution rules of section 318 (except that "any" is substituted for "50%" in section 318(a)(2)(C)).

For details, see Temporary Regulations section 1.441-4T.

Item D. Employer identification number. If the employer identification number (EIN) on the label is wrong or if the corporation did not receive a label, enter the correct number at the top of the return.

A corporation that does not have an EIN should apply for one on **Form SS-4,** Application for Employer Identification Number. This form may be obtained from most IRS and Social Security Administration offices. Send Form SS-4 to the same Internal Revenue Service Center to which Form 1120 or Form 1120-A is mailed. If the EIN has not been received by the filing time for the corporation return, write "Applied for" in the space for the EIN.

For more information concerning an EIN, see Publication 583.

Item F. Total assets. Enter the total assets of the corporation. If there are no assets at the end of the tax year, enter the total assets as of the beginning of the tax year.

Income

Note: *Generally, income from all sources, whether U.S. or foreign, must be included.*

Line 1

Gross receipts

Enter gross receipts or sales from all business operations except those that must be reported on lines 4 through 10. For reporting advance payments, see Regulations section 1.451-5. To report income from long-term contracts, see section 460.

Generally, the installment method cannot be used for dealer dispositions of property. See section 453(l) for details and exceptions. For dealer dispositions of property before March 1, 1986, dispositions of property used or produced in the trade or business of farming, and certain dispositions of timeshares and residential lots reported under the installment method, enter on line 1 the gross profit on collections from installment sales and carry the same amount to line 3. Attach a schedule showing the following for the current year and the 3 preceding years: **a.** gross sales, **b.** cost of goods sold, **c.** gross profits, **d.** percentage of gross profits to gross sales, **e.** amount collected, and **f.** gross profit on amount collected. For sales of timeshares and residential lots reported under the installment method, the corporation's income tax is increased by the interest payable under section 453(l)(3). To report this addition to the tax, see the instructions for line 3, Schedule J, Form 1120.

Accrual basis taxpayers need not accrue certain amounts to be received from the performance of services which, on the basis of their experience, will not be collected (section 448(d)(5)). This provision does not apply to any amount if interest is required to be paid on such amount or if there is any penalty for failure to timely pay such amount. Corporations that fall under this provision should attach a schedule showing total gross receipts, amount not accrued as a result of the application of section 448(d)(5), and the net amount accrued. The net amount should be entered on line 1a. For more information and guidelines on this "non-accrual experience method," see Temporary Regulations section 1.448-2T.

Line 2

Cost of goods sold and/or operations

Both Form 1120 and Form 1120-A filers must enter their cost of goods sold and/or operations on line 2, page 1, of their respective forms. However, a Form 1120 filer must also complete Schedule A on page 2 of the form.

While there is not a similar schedule on Form 1120-A to compute this entry, the following worksheet is provided to help in figuring this amount.

Note: *If a corporation is using either Schedule A, Form 1120, or the following worksheet to figure cost of operations, where inventories are not an income-determining factor, it should do so by entering a zero on lines 1 and 6 of the schedule or worksheet.*

Form 1120 filers using Schedule A and Form 1120-A filers using the worksheet below should see the instructions on page 6 before completing Schedule A or the worksheet.

Worksheet (Form 1120-A)

1.	Inventory at start of year (enter here and on page 2, Part II, line 3, Column (a), Form 1120-A)	
2.	Purchases (enter here and on page 2, Item J(1)(a), Form 1120-A)	
3.	Cost of labor (enter here and include in total on page 2, Item J(1)(c), Form 1120-A)	
4a.	Additional section 263A costs (enter here and on page 2, Item J(1)(b)) (see instructions)	
b.	Other costs (enter here and include on page 2, Item J(1)(c))	
5.	Subtotal—Add lines 1 through 4b	
6.	Inventory at end of year (enter here and on page 2, Part II, line 3, Column (b), Form 1120-A)	
7.	Total cost of goods sold and/or operations—Line 5 less line 6 (enter here and on page 1, line 2, Form 1120-A)	

Inventory valuation methods. Inventories can be valued at: **(1)** cost; **(2)** cost or market value (whichever is lower); or **(3)** any other method that is approved by the Commissioner, and that conforms to the provisions of the applicable regulations cited below.

Taxpayers using erroneous valuation methods must change to a method permitted for Federal income tax purposes. Such a change should be made by filing Form 3115. For more information about the

change, see Regulations section 1.446-1(e)(3) and Rev. Proc. 84-74, 1984-2 C.B. 736.

On line 8a of Schedule A, Form 1120 only, check the method(s) used for valuing inventories. Under "lower of cost or market," *market* generally applies to normal market conditions where there is a current bid price prevailing at the date the inventory is valued. When no regular open market exists or when quotations are nominal because of inactive market conditions, use fair market prices from the most reliable sales or purchase transactions that occurred near the date the inventory is valued. For more requirements, see Regulations section 1.471-4.

Inventory may be valued below cost when the merchandise is: **(1)** unsalable at normal prices, or **(2)** unusable in the normal way because the goods are "subnormal" (that is because of damage, imperfections, shop wear, etc.) within the meaning of Regulations section 1.471-2(c). Such goods may be valued at a current bona fide selling price, minus direct cost of disposition (but not less than scrap value) if such a price can be established. See Regulations section 1.471-2(c) for more requirements.

If this is the first year the "Last-in First-out" (LIFO) inventory method was either adopted or extended to inventory goods not previously valued under the LIFO method provided in section 472, attach **Form 970,** Application To Use LIFO Inventory Method, or a statement with the information required by Form 970. Also check the LIFO box on line 8b of Schedule A, Form 1120 only. Enter the amount or percent of total closing inventories covered under section 472 on line 8c. Estimates are acceptable.

If the corporation changed or extended its inventory method to LIFO and had to "write up" its opening inventory to cost in the year of election, report the effect of this writeup as income (line 10, page 1) proportionately over a 3-year period that begins in the tax year you made this election (section 472(d)).

Section 263A Uniform Capitalization Rules. See the uniform capitalization rules of section 263A discussed below before proceeding.

Schedule A, Form 1120, and Worksheet, Form 1120-A

Line 4a.—An entry is required on this line only for corporations that have elected a simplified method of accounting. In the case of taxpayers that have elected the simplified production method, additional section 263A costs are generally those costs, other than interest, that were not capitalized or included in the inventory costs under the taxpayer's method of accounting immediately prior to the effective date in Temporary Regulations section 1.263A-1T, but that are now required to be capitalized under section 263A. In the case of taxpayers that have elected a simplified resale method, additional section 263A costs are generally those costs incurred with respect to the following categories: off-site storage or warehousing; purchasing; handling, processing, assembly, and repackaging; and general and administrative costs (mixed service costs). Enter on line 4a the balance of section 263A costs paid or incurred during the tax year not included on lines 2 and 3. See Temporary Regulations section 1.263A-1T for more information.

Line 4b.—Enter on line 4b any costs paid or incurred during the tax year not entered on lines 2 through 4a.

Line 6.—See Temporary Regulations section 1.263A-1T for more information on computing the amount of additional section 263A costs to be capitalized and added to ending inventory.

Line 4

Dividends

Form 1120-A filers.—Because Form 1120-A can be filed by corporations that only received dividends from domestic corporations (that are not from debt-financed stock) that qualify for the 70% dividends-received deduction, they should enter the total of those dividends on line 4, page 1, Form 1120-A.

Form 1120 filers.—See the instructions for Schedule C, Form 1120.

Line 5

Interest

Enter taxable interest on U.S. obligations and on loans, notes, mortgages, bonds, bank deposits, corporate bonds, tax refunds, etc.

Do not offset interest expense against interest income.

Special rules apply to interest income from certain below-market rate loans. See section 7872 for more information.

Line 6

Gross rents

Enter the gross amount received for the rent of property. Deduct expenses such as repairs, interest, taxes, and depreciation on the proper lines for deductions.

Line 8

Capital gain net income

Every sale or exchange of a capital asset must be reported in detail on **Schedule D (Form 1120),** Capital Gains and Losses, even though no gain or loss is indicated.

Line 9

Net gain or (loss)

Enter the net gain or (loss) from line 18, Part II, **Form 4797,** Sales of Business Property.

Line 10

Other income

Enter any other taxable income not listed above, and explain its nature on an attached schedule. Examples of other income are any adjustment under section 481(a) required to be included in income during the current tax year due to a change in a method of accounting; recoveries of bad debts deducted in prior years under the specific charge-off method; the amount of credit for alcohol used as fuel (determined without regard to the limitation based on tax) that was entered on **Form 6478,** Credit for Alcohol Used as Fuel; and refunds of taxes deducted in prior years to the extent they reduced income subject to tax in the year deducted (see section 111). Do not offset current year's taxes with tax refunds.

If "other income" consists of only one item, describe it in parentheses on line 10.

Deductions

Limitations on deductions

1. Section 263A uniform capitalization rules.—The uniform capitalization rules of section 263A require corporations to capitalize or include in inventory certain costs incurred in connection with the production of real and personal tangible property held in inventory or held for sale in the ordinary course of business. Tangible personal property produced by a taxpayer includes a film, sound recording, videotape, book, or similar property. The rules also apply to personal property (tangible and intangible) acquired for resale. Taxpayers subject to the rules are required to capitalize not only direct costs but an allocable portion of most indirect costs (including taxes) that relate to the assets produced or acquired for resale. Interest expense paid or incurred during the production period of certain property must be capitalized and is governed by special rules. For more information, see Notice 88-99, 1988-2 C.B. 422. The uniform capitalization rules also apply to the production of property constructed or improved by a taxpayer for use in its trade or business or in an activity engaged in for profit.

Section 263A does not apply to personal property acquired for resale if the taxpayer's annual average gross receipts are $10,000,000 or less. It does not apply to timber or to most property produced under a long-term contract. Special rules apply for farmers. The rules do not apply to property which is produced for use by the taxpayer if substantial construction has occurred before March 1, 1986.

In the case of inventory, some of the indirect costs that must be capitalized are administration expenses; taxes; depreciation; insurance; compensation paid to officers attributable to services; rework labor; and contributions to pension, stock bonus, and certain profit-sharing, annuity, or deferred compensation plans.

The costs required to be capitalized under section 263A are not deductible until the property to which the costs relate is sold, used, or otherwise disposed of by the corporation.

Current deductions may still be claimed for research and experimental costs under section 174, intangible drilling costs for oil and gas and geothermal property, and mining and exploration and development costs. Temporary Regulations section 1.263A-1T specifies other indirect costs that may be currently deducted and those that must be capitalized with respect to production or resale activities. For more information, see Temporary Regulations section 1.263A-1T.

2. Transactions between related taxpayers.—Generally, an accrual basis taxpayer may only deduct business expenses and interest owed to a related party in the year the payment is included in the income of the related party. See section 267 for limitation on deductions for unpaid expenses and interest.

3. Section 291 limitations.—Corporations may be required to adjust deductions for depletion of iron ore and coal, intangible drilling and exploration and development costs, bad debt deductions for financial institutions, and the amortizable basis of pollution control facilities. See section 291 to determine the amount of adjustment.

4. Golden parachute payments.—A portion of the payments made by a corporation to key personnel that exceeds their usual compensation may not be deductible. This occurs when the corporation has an agreement (golden parachute) with these key employees to pay them these excessive amounts if control of the corporation changes. See section 280G.

5. Business startup expenses.—Business startup expenses are required to be capitalized unless an election is made to amortize them over a period of 60 months. See section 195.

6. Passive activity limitations.—Limitations on passive activity losses and credits under section 469 apply to closely held corporations (defined below) and personal service corporations as defined in Temporary Regulations section 1.441-4T (see the instructions for item C on page 5). A corporation is a closely held corporation for this purpose if at any time during the last half of the tax year more than 50% in value of its outstanding stock is owned, directly or indirectly, by or for not more than 5 individuals, and the corporation is not a personal service corporation. Certain organizations are treated as individuals for purposes of this test. (See section 542(a)(2).) For rules of determining stock ownership, see section 544 (as modified by section 465(a)(3)).

There are two kinds of passive activities: trade or business activities in which the corporation did not materially participate for the tax year, and rental activities regardless of its participation. An activity is a trade or business activity if the activity involves the conduct of a trade or business (i.e., deductions from the activity would be allowable under section 162 if other limitations, such as the passive loss rules, did not apply), or research or experimental expenditures in the activity are deductible under section 174 (or would be deductible if the corporation chose to deduct rather than capitalize them), and the activity is not a rental activity. Temporary Regulations section 1.469-1T(g)(3) defines material participation of corporations.

Generally, losses from passive activities can be deducted only to the extent of income from passive activities. Passive activity credits generally are limited to the tax attributable to net passive income. Closely held corporations are allowed to increase: (i) the limitation on losses from passive activities by the amount of net active income, and (ii) the limitation on passive activity credits by the tax attributable to net active income. See Temporary Regulations section 1.469-1T(g)(4) for the definition of net active income. Phase-in rules apply to certain passive activities acquired before October 23, 1986. For tax years beginning in 1989, 20% of the current year passive activity loss and credit from these activities is allowed. Generally, passive activity losses and credits that are not allowed in the current year are carried forward for use in later years.

Corporations subject to the passive activity limitations must complete **Form 8810,** Corporate Passive Activity Loss and Credit Limitations, to compute their allowable passive activity loss and credit. Before completing Form 8810, see Temporary Regulations section 1.163-8T, which provides rules for allocating interest expense among activities. If a passive activity is also subject to the at-risk rules of section 465, the at-risk rules apply before the passive loss rules. For more information, see section 469, the temporary regulations thereunder, and **Publication 925,** Passive Activity and At-Risk Rules.

Line 12

Compensation of officers

Besides entering officers' compensation deductible on line 12, filers of Form 1120 must complete Schedule E on page 2 if their total receipts (line 1a, plus lines 4 through 10, of page 1, Form 1120) are $500,000 or more. Do not include compensation deductible elsewhere on the return, such as amounts included in cost of goods sold and/or operations, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement.

Complete Schedule E, line 1, columns (a) through (f), for all officers. The corporation determines who is an officer under the laws of the state where incorporated.

In a consolidated return, each member of an affiliated group must furnish this information.

Line 13

Salaries and wages

Enter on line 13a the amount of total salaries and wages paid or incurred for the tax year. Do not include salaries and wages deductible elsewhere on the return, such as amounts included in cost of goods sold and/or operations, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement.

Caution: *If you provided taxable fringe benefits to your employees, such as personal use of a car, do not deduct as wages the amount allocated for depreciation and other expenses that you claimed on lines 20 and 26, Form 1120, or lines 20 and 22, Form 1120-A.*

Enter on line 13b the amount of jobs credit from **Form 5884,** Jobs Credit.

Line 14

Repairs

Enter the cost of incidental repairs not claimed elsewhere on the return, such as labor and supplies, that do not add to the value of the property or appreciably prolong its life.

Line 15

Bad debts

Enter the total debts that became worthless in whole or in part during the tax year. A small bank or thrift institution using the reserve method should attach a schedule showing how it arrived at the current year's provision.

Line 17

Taxes

Enter taxes paid or accrued during the tax year, but do not include the following:

1. Federal income taxes (except the environmental tax under section 59A);
2. Foreign or U.S. possession income taxes if a tax credit is claimed;
3. Taxes not imposed on the corporation; or
4. Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property (such taxes must be treated as a part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition).

See section 164(d) for apportionment of taxes on real property between seller and purchaser.

If the corporation is liable for environmental tax under section 59A, see **Form 4626,** Alternative Minimum Tax—Corporations, for computation of the environmental tax deduction.

Line 18

Interest

Do not include interest on indebtedness incurred or continued to purchase or carry obligations on which the interest is wholly exempt from income tax. For exceptions, see section 265(b).

Mutual savings banks, building and loan associations, and cooperative banks can deduct the amounts paid or credited to the accounts of depositors as dividends, interest, or earnings. See section 591.

Generally, a cash basis taxpayer cannot deduct prepaid interest allocable to years following the current tax year. For example, a cash basis calendar year taxpayer who in 1989 prepaid interest allocable to any period after 1989 can deduct only the amount allocable to 1989. See **Publication 545,** Interest Expense.

Generally, the interest and carrying charges on straddles cannot be deducted and must be capitalized. See section 263(g).

Do not deduct interest on debt allocable to the production of qualified property. Interest that is allocable to such property produced by a corporation for its own use or for sale must be capitalized. In addition, a corporation must also capitalize any interest on debt allocable to an asset used to produce the above property. See section 263A and Notice 88-99 for definitions and more information.

See section 7872 for special rules regarding the deductibility of foregone interest on certain below-market rate loans.

Line 19

Contributions

Enter contributions or gifts actually paid within the tax year to or for the use of charitable and governmental organizations described in section 170(c) and any unused contributions carried over from prior years.

The total amount claimed may not be more than 10% of taxable income (line 30, Form 1120, or line 26, Form 1120-A) computed without regard to the following:

1. Any deduction for contributions;

2. The special deductions on line 29b, Form 1120, or line 25b, Form 1120-A;

3. Deductions allowed under sections 249 and 250;

4. Any net operating loss carryback to the tax year under section 172; and

5. Any capital loss carryback to the tax year under section 1212(a)(1).

Charitable contributions over the 10% limitation may not be deducted for the tax year but may be carried over to the next 5 tax years.

Taxable income is modified in order to determine the amount of a net operating loss used in an intervening year (i.e., a year to which a net operating loss is carried but not fully absorbed). For this purpose, taxable income is computed by determining the net operating loss deduction for the year without regard to the net operating loss for the loss year or any later year. See section 172(b)(2). To the extent charitable contributions are used to reduce taxable income for this purpose and increase a net operating loss carryover, a contributions carryover is not allowed. See section 170(d)(2)(B).

Corporations on the accrual basis may elect to deduct contributions paid by the 15th day of the 3rd month after the end of the tax year if the contributions are authorized by the board of directors during the tax year. Attach to the return a declaration, signed by an officer, stating that the resolution authorizing the contributions was adopted by the board of directors during the tax year. Also attach a copy of the resolution.

If a contribution is in property other than money and the total claimed deduction of all property contributed exceeds $500, corporations (except closely held and personal service corporations) shall attach a schedule describing the kind of property contributed and the method used in determining its fair market value. Closely held corporations and personal service corporations must complete **Form 8283**, Noncash Charitable Contributions, and attach it to their returns. All other corporations generally must complete and attach Form 8283 to their returns for contributions of property other than money if the total claimed deduction for all property contributed was more than $5,000.

Also, a corporation must keep records, as required by the regulations for section 170, for all of its charitable contributions.

If the corporation made a "qualified conservation contribution" under section 170(h), also include the fair market value of the underlying property before and after the donation, as well as the type of legal interest contributed, and describe the conservation purpose furthered by the donation.

If a contribution carryover is included, show the amount and how it was determined.

Special rule for contributions of certain property. For a charitable contribution of property, the corporation must reduce the contribution by the sum of:

1. The ordinary income, short-term capital gain that would have resulted if the property were sold at its fair market value, and

2. For certain contributions, all of the long-term capital gain that would have resulted if the property were sold at its fair market value.

The reduction for the long-term capital gain applies to:

1. Contributions of tangible personal property for use by an exempt organization for a purpose or function unrelated to the basis for its exemption; and

2. Contributions of any property (except stock for which market quotations are readily available—see section 170(e)(5)) to or for the use of certain private foundations. See section 170(e) and Regulations section 1.170A-4.

For special rules for contributions of inventory and other property to certain organizations, see section 170(e)(3) and Regulations section 1.170A-4A.

Charitable contributions of scientific property used for research. A corporation (other than a personal holding company or a service organization) can receive a larger deduction for contributing scientific property used for research to an institution of higher education. For further information, see section 170(e).

Line 20

Depreciation

Besides depreciation, include on line 20 the part of the cost (up to $10,000) that the corporation elected to expense for certain recovery property placed in service during tax year 1989. See the instructions for **Form 4562,** Depreciation and Amortization.

Line 22, Form 1120 only

Depletion

See sections 613 and 613A for percentage depletion rates applicable to natural deposits. Also, see section 291 for the limitation on the depletion deduction for iron ore and coal (including lignite).

Foreign intangible drilling costs and foreign exploration and development costs must either be added to the corporation's basis for cost depletion purposes or be deducted ratably over a 10-year period. See sections 263(i), 616, and 617 for more information.

Attach **Form T (Timber)**, Forest Industries Schedules, if a deduction for depletion of timber is taken.

Line 24, Form 1120 only

Pension, profit-sharing, etc., plans

Employers who maintain a pension, profit-sharing, or other funded deferred compensation plan, whether or not qualified under the Internal Revenue Code and whether or not a deduction is claimed for the current tax year, generally are required to file one of the forms described below. There are penalties for failure to file these forms on time and for overstating the pension plan deduction. See sections 6652(e) and 6659A.

Form 5500.—Complete this form for each plan with 100 or more participants.

Form 5500-C/R.—Complete this form for each plan with fewer than 100 participants.

Form 5500EZ.—Complete this form for a one-participant plan.

Line 25, Form 1120 only

Employee benefit programs

Enter the amount of contributions to employee benefit programs not claimed elsewhere on the return (for example, insurance, health and welfare programs) that are not an incidental part of a pension, profit-sharing, etc., plan included on line 24.

Line 26, Form 1120, and Line 22, Form 1120-A

Other deductions

Attach a separate sheet listing all allowable deductions that are not deductible elsewhere on Form 1120 (or 1120-A). Enter the total on this line.

Include on this line the deduction taken for amortization of pollution control facilities, organization expenses, etc. See Form 4562.

A corporation may deduct dividends it pays in cash on stock held by an employee stock ownership plan. However, a deduction may only be taken if, according to the plan, the dividends are:

1. Paid in cash directly to the plan participants; or

2. Paid to the plan, which distributes them in cash to the plan participants no later than 90 days after the end of the plan year in which the dividends are paid. See section 404(k). For other deductions which may be allowed, see section 404(k)(2)(C).

Generally, a deduction may not be taken for the amount of any item or part thereof allocable to a class of exempt income. See section 265(b) for exceptions.

Generally, the corporation can deduct only 80% of the amount otherwise allowable for meals and entertainment expenses paid or incurred in its trade or business. In addition, meals must not be lavish or extravagant; a bona fide business discussion must occur during, immediately before, or immediately after the meal; and your employee must be present at the meal. See section 274(k)(2) for exceptions. If the corporation claims a deduction for unallowable meal expenses, it may have to pay a penalty.

Additional limitations apply to deductions for gifts, skybox rentals, luxury water travel, convention expenses, and entertainment tickets. See section 274 and **Publication 463,** Travel, Entertainment, and Gift Expenses, for details.

Generally, a corporation can deduct all other ordinary and necessary travel and entertainment expenses paid or incurred in its trade or business. However, it cannot deduct an expense paid or incurred for a facility (such as a yacht or hunting lodge) that is used for an activity that is usually considered entertainment, amusement, or recreation. (**Note:** *The corporation may be able to deduct the expense if the amount is treated as compensation and reported on Form W-2 for an employee or on Form 1099-MISC for an independent contractor.*)

Note: *Do not deduct penalties imposed on corporations such as those included in General Instruction D.*

Form 1120-A filers.—These filers should also include on line 22 of Form 1120-A the expenses described above for lines 22, 24, and 25 of Form 1120.

Line 28, Form 1120, and Line 24, Form 1120-A

Taxable income before NOL deduction and special deductions

"At-risk" rules.—Special "at-risk" rules under section 465 generally apply to closely held corporations (defined on page 7) engaged in any activity as a trade or business or for the production of income. Such corporations may have to adjust the amount on line 28, Form 1120, or line 24, Form 1120-A. (See below.) But the at-risk rules do not apply to: **(1)** holding real property placed in service by the taxpayer before 1987; **(2)** equipment leasing under sections 465(c)(4), (5), and (6); and **(3)** any qualifying business of a qualified corporation under section 465(c)(7). However, the at-risk rules do apply to the holding of mineral property.

If the at-risk rules apply, adjust the amount on this line for section 465(d) losses. These losses are limited to the amount for which such corporation is at risk for each separate activity at the close of the tax year. If the corporation is involved in one or more activities, one or more of which incurs a loss for the year, report the losses for each activity separately. Attach **Form 6198,** At-Risk Limitations, showing the amount at risk and gross income and deductions for the activities with the losses.

If the corporation sells or otherwise disposes of an asset or its interest (either total or partial) in an activity to which the at-risk rules apply, determine the net profit or loss from the activity by combining the gain or loss on the sale or disposition with the profit or loss from the activity. If the corporation has a net loss, it may be limited because of the at-risk rules.

Treat any loss from an activity not allowed for the tax year as a deduction allocable to the activity in the next tax year.

Line 29a, Form 1120, and Line 25a, Form 1120-A

Net operating loss deduction

The "net operating loss deduction" is the amount of the net operating loss carryovers and carrybacks that can be deducted in the tax year. See section 172(a). If this deduction is taken, explain its computation on an attached schedule.

Generally, a corporation may carry a net operating loss back to each of the 3 years preceding the year of the loss and carry it over to each of the 15 years following the year of the loss. Personal service corporations are not permitted to carry back a net operating loss to or from any tax year to which a section 444 election applies.

A corporation may carry back 10 years the part of the net operating loss attributable to a product liability loss. See section 172(b)(1)(I). See Regulations section 1.172-13(c) for the required statement that must be attached to Form 1120 when claiming the 10-year carryback on product liability losses.

There is also an available election to carry a net operating loss over to just each of the 15 years following the year of the loss. The election may be made by attaching a statement to a return that is filed on time (including extensions). The election is irrevocable. Section 172(b)(1) describes types of losses for which the 15-year carryforward period does not apply.

After applying the net operating loss to the first tax year to which it may be carried, the portion of the loss the corporation may carry to each of the remaining tax years is the excess, if any, of the loss over the sum of the modified taxable income for each of the prior tax years to which the corporation may carry the loss. See section 172(b).

If there is a carryback of a net operating loss, net capital loss, or an unused credit, file **Form 1139,** Corporation Application for Tentative Refund, within 12 months after the close of the tax year for a "quick refund" of taxes. See section 6411.

See section 172 for special rules, limitations, and definitions pertaining to net operating loss carrybacks and carryovers. Also see **Publication 536,** Net Operating Losses.

See section 382 for the limitation on the amount of taxable income of a loss corporation for any tax year ending after a post-1986 ownership change that may be offset by pre-change net operating loss carryovers. Also see Temporary Regulations section 1.382-2T(a)(2)(ii), which requires that a loss corporation file an information statement with its income tax return for each tax year that it is a loss corporation.

See section 384 for the limitation on the use of preacquisition losses of one corporation to offset recognized built-in gains of another corporation.

Line 29b, Form 1120, and Line 25b, Form 1120-A

Special deductions

Form 1120 filers.— See the instructions for Schedule C below.

Form 1120-A filers.—Generally, enter 70% of line 4, page 1, on line 25b. However, this deduction may not be more than 70% of line 24, page 1. For this purpose, compute line 24 without regard to any adjustment under section 1059 and without regard to any capital loss carryback to the tax year under section 1212(a)(1).

In a year in which a net operating loss occurs, this 70% limitation does not apply, even if the loss is created by the dividends-received deduction. See sections 172(d) and 246(b).

Schedule C Form 1120 Only

Dividends and Special Deductions

For purposes of the 20% ownership test on lines 1 through 7, the percentage of stock owned by the corporation is based on voting power and value of the stock. Preferred stock described in section 1504(a)(4) is not taken into account.

Line 1, Column (a)

Enter dividends (except those received on debt-financed stock acquired after July 18, 1984—see section 246A) that are received from less-than-20%-owned domestic corporations subject to income tax and that are subject to the 70% deduction under section 243(a)(1). Include on this line taxable distributions from an IC-DISC or former DISC that are designated as being eligible for the 70% deduction and certain dividends of Federal Home Loan Banks. See section 246(a)(2).

For dividends received from a regulated investment company, see section 854 for the amount subject to the 70% deduction.

So-called dividends or earnings received from mutual savings banks, etc., are really interest. Do not treat them as dividends.

Line 2, Column (a)

Enter dividends (except those received on debt-financed stock acquired after July 18, 1984) that are received from 20%-or-more-owned domestic corporations subject to income tax and that are subject to the 80% deduction under section 243(c). Include on this line taxable distributions from an IC-DISC or former DISC that are designated as being eligible for the 80% deduction.

Line 3, Column (a)

Enter dividends on debt-financed stock acquired after July 18, 1984, that are received from domestic and foreign corporations subject to income tax and that would otherwise be subject to the dividends-received deduction under section 243(a)(1), 243(c), or 245(a). Generally, debt-financed stock is stock that the corporation acquired by incurring a debt (for example, it borrowed money to buy the stock).

Line 3, Columns (b) and (c)

Dividends received on debt-financed stock acquired after July 18, 1984, are not entitled to the full 70% or 80% dividends-received deduction. The 70% or 80% deduction is reduced by a percentage that is related to the amount of debt incurred to acquire the stock. See section 246A. Also see section 245(a) before making this computation for an additional limitation that applies to dividends received from foreign corporations. A schedule showing how the amount on line 3, column (c), was figured must be attached to Form 1120.

Line 4, Column (a)

Enter dividends received on the preferred stock of a less-than-20%-owned public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

Line 5, Column (a)

Enter dividends received on preferred stock of a 20%-or-more-owned public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

Line 6, Column (a)

Enter the U.S.-source portion of dividends that are received from less-than-20%-owned foreign corporations and that qualify for the 70% deduction under section 245(a). To qualify for the 70% deduction, the corporation must own at least 10% of the stock of the foreign corporation by vote and value. Also include on line 6, column (a), dividends received from a less-than-20%-owned FSC that are attributable to income treated as effectively connected with the conduct of a trade or business within the U.S. (excluding foreign trade income) and that qualify for the 70% deduction provided in section 245(c)(1)(B).

Line 7, Column (a)

Enter the U.S.-source portion of dividends that are received from 20%-or-more-owned foreign corporations and that qualify for the 80% deduction under section 245(a). Also include on line 7, column (a), dividends received from a 20%-or-more-owned FSC that are attributable to income treated as effectively connected with the conduct of a trade or business within the U.S. (excluding foreign trade income) and that qualify for the 30% deduction provided in section 245(c)(1)(B).

Line 8, Column (a)

Enter dividends that are received from wholly owned foreign subsidiaries and that are eligible for the 100% deduction provided in section 245(b).

In general, the deduction under section 245(b) applies to dividends paid out of the earnings and profits of a foreign corporation for a tax year during which:

1. All of its outstanding stock is owned (directly or indirectly) by the domestic corporation receiving the dividends, and

2. All of its gross income from all sources is effectively connected with the conduct of a trade or business within the U.S.

Line 9, Column (c)

Limitation on dividends-received deduction.

Generally, line 9 of column (c) may not exceed the amount from the worksheet below. However, in a year in which a net operating loss occurs, this limitation does not apply even if the loss is created by the dividends-received deduction. See sections 172(d) and 246(b). Certain financial institutions to which section 593(a) applies should see section 596 for the special limitation on the dividends-received deduction.

1. Refigure line 28, page 1, Form 1120, without regard to any adjustment under section 1059 and without regard to any capital loss carryback to the tax year under section 1212(a)(1)	
2. Complete lines 10, 11, and 12 of column (c) and enter the sum of those lines	
3. Subtract line 2 from line 1	
4. Multiply the amount on line 3 by 80%	
5. Enter the sum of the amounts on lines 2, 5, 7, and 8 of column (c) and the portion of the deduction on line 3 of column (c) that is attributable to dividends received from 20%-or-more-owned corporations	
6. Enter the lesser of line 4 or line 5. (Do not complete the rest of this worksheet if line 5 is greater than line 4. Instead, enter the amount from line 6 on line 9 of column (c).)	
7. Enter the total amount of dividends received from 20%-or-more-owned corporations and included on lines 2, 3, 5, 7, and 8 of column (a)	
8. Subtract line 7 from line 3	
9. Multiply the amount on line 8 by 70%	
10. Subtract line 5 above from line 9 of column (c)	
11. Enter the lesser of line 9 or line 10	
12. Dividends-received deduction after limitation (sec. 246(b)). Add the amounts on lines 6 and 11 and enter on line 9 of column (c)	

Line 10, Columns (a) and (c)

Small business investment companies operating under the Small Business Investment Act of 1958 (15 U.S.C. 661 and following) must enter dividends that are received from domestic corporations subject to income tax even though a deduction is allowed for the entire amount of such dividends. To claim the 100% deduction on line 10, column (c), the company must file with its return a statement that it was a Federal licensee under the Small Business Investment Act of 1958 at the time of receipt of the dividends.

Line 11, Column (a)

Enter dividends from FSCs that are attributable to foreign trade income and that are eligible for the 100% deduction provided in section 245(c)(1)(A).

Line 12, Columns (a) and (c)

Enter only those dividends that are subject to the elective provisions of section 243(b) and that are entitled to the 100% dividends-received deduction under section 243(a)(3). Corporations making this election are subject to the provisions of section 1561.

Line 13, Column (a)

Enter foreign dividends not reportable on lines 3, 6, 7, 8, or 11 of column (a). Exclude distributions of amounts constructively taxed in the current year or in prior years under subpart F (sections 951 through 964).

Line 14, Column (a)

Include income constructively received from controlled foreign corporations under subpart F. This amount should equal the total of amounts reported on Schedule J, Form(s) 5471.

Line 15, Column (a)

Include gross-up for taxes deemed paid under sections 902 and 960.

Line 16, Column (a)

Enter taxable distributions from an IC-DISC or former DISC that are designated as not being eligible for a dividends-received deduction.

No deduction is allowed under section 243 for a dividend from an IC-DISC or former DISC (as defined in section 992(a)) to the extent the dividend:

1. Is paid out of the corporation's accumulated IC-DISC income or previously taxed income, or

2. Is a deemed distribution under section 995(b)(1).

Line 17, Column (a)

Include the following:

1. Dividends (other than capital gain dividends and exempt-interest dividends) that are received from regulated investment companies and that are not subject to the 70% deduction.

2. Dividends from tax-exempt organizations.

3. Dividends (other than capital gain dividends) received from a real estate investment trust that, for the tax year of the trust in which the dividends are paid, qualifies under sections 856 through 860.

4. Dividends not eligible for a dividends-received deduction because of the holding period of the stock or an obligation to make corresponding payments with respect to similar stock.

Two situations in which the dividends-received deduction will not be allowed on any share of stock are:

(1) If the corporation held it 45 days or less (see section 246(c)(1)(A)), or

(2) To the extent the corporation is under an obligation to make related payments for substantially similar or related property.

5. Any other taxable dividend income not properly reported above (including distributions under section 936(h)(4)). If patronage dividends or per-unit retain allocations are included in Schedule C, line 17, column (a), identify the total of these amounts in a schedule attached to Form 1120.

Line 18, Column (c)

Deduction for dividends paid on certain preferred stock of public utilities. Section 247 allows public utilities a deduction of 41.176% of the lesser of:

1. Dividends paid on their preferred stock during the tax year, or

2. Taxable income computed without regard to this deduction.

In a year in which a net operating loss occurs, compute the deduction without regard to section 247(a)(1)(B). See section 172(d).

Tax Computation

Line 1, Part I, Form 1120-A
Line 3, Schedule J, Form 1120

A corporation that files Form 1120 or 1120-A must compute its tax on its taxable income as follows:

(1) Corporations other than qualified personal service corporations (defined below) (Members of a controlled group should see the instructions below for lines 1 and 2 under heading B.):

If its taxable income (line 30, Form 1120, or line 26, Form 1120-A) on page 1 is:

Over—	*But not over—*	*Its tax is:*	*Of the amount over—*
0	$50,000	15%	0
$50,000	75,000	$7,500 + 25%	$50,000
75,000	100,000	13,750 + 34%	75,000
100,000	335,000	22,250 + 39%	100,000
335,000	------	34%	0

(2) Qualified personal service corporations:

A qualified personal service corporation is taxed at a flat rate of 34% on its taxable income. For this purpose, a qualified personal service corporation is any corporation: **(a)** substantially all of the activities of which involve the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting, and **(b)** at least 95% of the stock of which is owned by employees performing the services, retired employees who had performed the services listed above, any estate of an employee or retiree described above, or any person who

acquired the stock of the corporation as a result of the death of an employee or retiree described above, if the acquisition occurred within 2 years of death. See Temporary Regulations section 1.448-1T(e) for details.

A. Form 1120-A, Part I, Page 2

Line 2a

General business credit. This credit is made up of the sum of the following credits:

Investment credit. The investment credit was generally repealed for property placed in service after 1985. See **Form 3468,** Computation of Investment Credit, for exceptions.

Jobs credit. The jobs credit, if elected, is allowed for hiring members of targeted groups during the tax year. See **Form 5884,** Jobs Credit, for definitions, special rules, and limitations.

Do not take an expense deduction for the part of the wages or salaries paid or incurred that is equal to the amount of the jobs credit (determined without regard to the limitation based on the tax (section 38(c))).

Alcohol fuel credit. A corporation may be able to take a credit for alcohol used as fuel. Use **Form 6478,** Credit for Alcohol Used as Fuel, to figure the credit.

Credit for increasing research activities. See **Form 6765,** Credit for Increasing Research Activities, and section 41.

Low-income housing credit. See **Form 8586,** Low-Income Housing Credit, and section 42.

Form 3800, *General Business Credit.* Enter on the appropriate line of the corporate tax return the amount of the credit from Form 3800, and check the boxes indicating which forms are attached to the return. If the corporation is claiming only one of the above credits, you generally do not have to complete Form 3800. Instead, check the appropriate box and attach the form for which the credit is being taken. However, if the corporation has a carryforward or carryback of any of these credits (or a carryforward of an ESOP credit), it must use Form 3800. For more information, see **Publication 572,** General Business Credit.

Line 2b

Credit for prior year minimum tax. If the corporation had an alternative minimum tax liability in a prior tax year beginning after 1986 but has no current year alternative minimum tax, it may be able to take the credit for prior year minimum tax. See **Form 8801,** Credit for Prior Year Minimum Tax, and section 53.

Line 5

Recapture Taxes

Recapture of investment credit. If property is disposed of or ceases to be qualified property before the end of the life-years used in computing the regular or energy investment credit, there may be a recapture of the credit. See **Form 4255,** Recapture of Investment Credit.

Recapture of low-income housing credit. If you must recapture part of the low-income housing credit because there has been a decrease in the qualified basis of a building from the prior year or if you disposed of the building or an ownership interest in it, see **Form 8611,** Recapture of Low-Income Housing Credit, and section 42(j).

Line 6

Alternative minimum tax. Attach **Form 4626,** Alternative Minimum Tax—Corporations, if your taxable income (or loss) before the net operating loss deduction when combined with your adjustments and tax preference items (including the book income adjustment) totals more than the lesser of: (a) $40,000, or (b) your allowable exemption amount. See Form 4626 for details.

B. Form 1120, Schedule J

Lines 1 and 2

Members of a controlled group, as defined in section 1563, are entitled to one $50,000 and one $25,000 taxable income bracket amount (in that order) on line 2a.

When a controlled group adopts or later amends an apportionment plan, each member must attach to its tax return a copy of its consent to this plan. The copy (or an attached statement) must show the part of the amount in each taxable income bracket apportioned to that member. There are other requirements as well. See Regulations section 1.1561-3(b) for the requirements and for the time and manner of making the consent.

Equal Apportionment Plan. If no apportionment plan is adopted, the members of the controlled group must divide the amount in each taxable income bracket equally among themselves. For example, controlled group AB consists of corporation A and corporation B. They do not elect an apportionment plan. Therefore, both corporation A and corporation B are entitled to $25,000 (one-half of $50,000) in the $50,000 taxable income bracket on line 2a(i) and to $12,500 (one-half of $25,000) in the $25,000 taxable income bracket on line 2a(ii).

Unequal Apportionment Plan. Members of a controlled group may elect an unequal apportionment plan and divide the taxable income brackets as they wish. There is no need for consistency between taxable income brackets. Any member of the controlled group may be entitled to all, some, or none of the taxable income bracket. However, the total amount for all members of the controlled group cannot be more than the total amount in each taxable income bracket.

Each member of a controlled group must compute the tax as follows (except qualified personal service corporations):

1. Enter taxable income (line 30, page 1, Form 1120). . . . . _____
2. Enter line 1 or the corporation's share of the $50,000 taxable income bracket, whichever is less . . . . . _____
3. Subtract line 2 from line 1 . . _____
4. Enter line 3 or the corporation's share of the $25,000 taxable income bracket, whichever is less . . . . . _____
5. Subtract line 4 from line 3 . . _____
6. Enter 15% of line 2 . . . . . _____
7. Enter 25% of line 4 . . . . . _____
8. Enter 34% of line 5 . . . . . _____
9. If the taxable income of the controlled group exceeds $100,000, enter this member's share of the **lesser** of:
   (a) 5% of the excess over $100,000, **or**
   (b) $11,750.
   (See instructions for additional 5% tax, below.) . . . . . _____
10. Total of lines 6 through 9. Enter this amount on line 3, Schedule J, Form 1120 . . . . . _____

Additional 5% tax. Members of a controlled group are treated as one corporation for purposes of figuring the applicability of the additional 5% tax that must be paid by corporations with taxable income in excess of $100,000. If the additional tax applies, each member of the controlled group will pay that tax based on the part of the amount that is used in each taxable income bracket to reduce that member's tax. See section 1561(a). Each member of the group must enter its share of the additional 5% tax on line 2b and attach to its tax return a schedule that shows the taxable income of the entire group as well as how its share of the additional tax was figured.

Line 3

Bank holding companies. Section 6158 provides that a bank holding company may elect to pay in installments the tax attributable to the sale of certain assets whose divestiture is certified by the Board of Governors of the Federal Reserve System. If the bank holding company chooses this election, attach a statement showing the tax computation and the amount of the installment paid with this return. Also, in the right-hand margin next to line 3, Schedule J, enter the amount of the installment payment followed by the words "computed under section 6158." If an election under section 1103(g) or (h) applies, enter the words "section 1103(g) election" or "section 1103(h) election," as the case may be.

Mutual savings bank conducting life insurance business. The tax under section 594 consists of the sum of: **(1)** a partial tax computed on Form 1120 on the taxable income of the bank determined without regard to income or deductions allocable to the life insurance department, and **(2)** a partial tax on the taxable income computed on Form 1120L of the life insurance department. Enter the combined tax on line 3 of Schedule J, Form 1120. Attach Form 1120L as a schedule and identify it as such.

Interest on tax attributable to payments received on installment sales of certain timeshares and residential lots. If the corporation elected to pay interest on the amount of tax attributable to payments received on installment obligations arising from the disposition of certain timeshares and residential lots under section 453(l)(3), it must include the interest due in the amount to be entered on line 3, Schedule J, Form 1120. Write on the dotted line to the left of line 3, Schedule J, "Sec. 453(l)(3) interest– $(amount)." Attach a schedule showing the computation.

Interest on tax deferred under the installment method for certain non-dealer installment obligations. If an obligation arising from the disposition of property to which section 453A applies is

outstanding at the close of the year, the corporation must include the interest due under section 453A(c) in the amount to be entered on line 3, Schedule J, Form 1120. Write on the dotted line to the left of line 3, Schedule J, "Sec. 453A(c) interest– $(amount)." Attach a schedule showing the computation.

Deferred tax amount under section 1291. If the corporation was a shareholder in a passive foreign investment company (PFIC) that received an excess distribution or disposed of its investment in the PFIC during the year, it must include the aggregate increases in taxes due under section 1291(c)(2) in the amount to be entered on line 3, Schedule J, Form 1120. Write on the dotted line to the left of line 3, Schedule J, "Sec. 1291– $(amount)." Do not include on line 3 the interest charge due under section 1291(c)(3). Instead, write "Sec. 1291 interest" and the amount owed in the bottom margin of page 1, Form 1120. See Form 8621 for details.

Line 4a

Foreign tax credit. See **Form 1118,** Computation of Foreign Tax Credit—Corporations, for an explanation of when a corporation can take this credit for payment of income tax to a foreign country or U.S. possession.

Line 4b

Possessions tax credit. See **Form 5712,** Election To Be Treated as a Possessions Corporation Under Section 936, for rules on how to elect to claim the possessions tax credit (section 936). Compute the credit on **Form 5735,** Computation of Possessions Corporation Tax Credit Allowed Under Section 936.

Line 4c

Orphan drug credit. See section 28 and **Form 6765**, Credit for Increasing Research Activities (or for claiming the orphan drug credit), for an explanation of when a corporation can take this credit, as well as how it is figured.

Line 4d

Credit for fuel produced from a nonconventional source. A credit is allowed for the sale of qualified fuels produced from a nonconventional source. Section 29 contains a definition of qualified fuels, provisions for figuring the credit, and other special rules. Attach a separate schedule to the return showing the computation of the credit.

Line 4e

General business credit. See the earlier instructions for Form 1120-A, line 2a, under **Tax Computation**.

Line 4f

Credit for prior year minimum tax. See the earlier instructions for Form 1120-A, line 2b, under **Tax Computation.**

Line 7

Personal holding company tax. A corporation is taxed as a personal holding company under section 542 if:

- At least 60% of its adjusted ordinary gross income, defined in section 543(b)(2), for the tax year is personal holding company income as defined in section 543(a), and
- At any time during the last half of the tax year more than 50% in value of its outstanding stock is owned, directly or indirectly, by not more than 5 individuals.

Use **Schedule PH (Form 1120),** Computation of U.S. Personal Holding Company Tax, to figure this tax.

Line 8

Recapture taxes. See the earlier instructions for Form 1120-A, line 5, under **Tax Computation.**

Line 9a

Alternative minimum tax. See the earlier instructions for Form 1120-A, line 6, under **Tax Computation.**

Line 9b

Environmental tax. The corporation may be liable for the environmental tax if the modified alternative minimum taxable income of the corporation exceeds $2,000,000. See Form 4626 for details.

Line 10

Dealers in personal property. If the corporation deferred the payment of certain tax for its first or second tax year ending after 1986 under the transition rule of 1986 Act section 811(c)(7), it must include the ratable portion of the tax due for the current tax year on line 10, Schedule J, Form 1120. Write on the dotted line to the left of line 10, Schedule J, "Sec. 453C tax– $(amount)." Attach a schedule showing the computation.

Deferred tax and interest on undistributed earnings of a qualified electing fund under section 1294. Follow the instructions for Form 8621 to determine the amount of tax owed or deferred to include in or subtract from the total tax on line 10, Schedule J, Form 1120. Write on the dotted line to the left of line 10, Schedule J, "Sec. 1294" and the amount of tax to be added to or subtracted from the total for line 10. (Show in brackets an amount to be subtracted.) Do not include on line 10 the interest charge due on the deferred tax. Instead, write "Sec. 1294 interest" and the amount owed in the bottom margin of page 1, Form 1120.

Installment payment of tax attributable to LIFO recapture by corporations making an S corporation election. A corporation making an S corporation election and that uses the LIFO inventory pricing method for its last tax year as a C corporation must include a "LIFO recapture amount" in income for its last year as a C corporation. The corporation's LIFO recapture amount is equal to the excess of the inventory amount using the FIFO method over the inventory amount using the LIFO method at the close of the corporation's last tax year as a C corporation.

The additional tax resulting from inclusion of the LIFO recapture amount in income is payable in 4 equal installments. The first installment is due with the return for the electing corporation's last tax year as a C corporation and must be paid by the due date (excluding extensions of time to file).

To determine the additional tax due to LIFO recapture, the corporation must complete lines 1 through 9b of Schedule J based on income that includes the LIFO recapture amount. On a separate worksheet, using the Schedule J format, the corporation must then complete the entire worksheet (lines 1 though 10) based on taxable income not including the LIFO recapture amount. The total of lines 1 through 9b must then be compared to line 10 of the worksheet. The difference is the additional tax due to LIFO recapture.

Since the total of lines 1 through 9b of Schedule J will include all the additional tax due to LIFO recapture, the amount that may be deferred (¾ of the additional tax) must first be subtracted to arrive at line 10 total tax. Write this deferral amount in brackets on the dotted line to the left of line 10, Schedule J, as "Sec. 1363(d) deferral– $(amount)." Attach a schedule showing the computation.

Note: *The remaining 3 installments of deferred tax must be paid by the due date of Form 1120S for the next 3 tax years. No interest is payable on the deferred tax if paid on time.*

Schedule L, Form 1120, and Part II, Form 1120-A

Balance Sheets

Line 5

Tax-exempt securities. Include on this line:

(1) State and local government obligations, the interest on which is excludible from gross income under section 103(a), and

(2) Stock in a mutual fund or other regulated investment company that distributed exempt-interest dividends during the tax year of the corporation.

Schedule M-1 (Form 1120 Only)

Reconciliation of Income per Books With Income per Return

Line 5c

Travel and entertainment. Include on this line: 20% of meals and entertainment not allowed under section 274(n); expenses for the use of an entertainment facility; the part of business gifts in excess of $25; expenses of an individual allocable to conventions on cruise ships in excess of $2,000; employee achievement awards in excess of $400; the cost of entertainment tickets in excess of face value (also subject to 20% disallowance); the cost of skyboxes in excess of the face value of non-luxury box seat tickets; the part of the cost of luxury water travel not allowed under section 274(m); expenses for travel as a form of education; and other travel and entertainment expenses not allowed as a deduction.

Schedule M-2 (Form 1120 Only)

Unappropriated Retained Earnings

Line 5

Distributions under the Bank Holding Company Act. If an election under section 1103(g) or (h) applies to a section 1101 distribution, the bank holding company making the distribution must enter the words "section 1103(g) election" or "section 1103(h) election," as the case may be, in the right-hand margin next to line 5, Schedule M-2, Form 1120.

Codes for Principal Business Activity

These codes for the Principal Business Activity are designed to classify enterprises by the type of activity in which they are engaged to facilitate the administration of the Internal Revenue Code. Though similar in format and structure to the Standard Industrial Classification Codes (SIC), they should not be used as SIC codes.

Using the list below, enter on page 3, under H(1), Form 1120, or on page 2, under G(1), Form 1120-A, the code number for the specific industry group from which the largest percentage of "total receipts" is derived. "Total receipts" means gross receipts (line 1a, page 1) plus all other income (lines 4 through 10, page 1).

On page 3, under H(2) and H(3), Form 1120, or on page 2, under G(2) and G(3), Form 1120-A, state the principal business activity and principal product or service that account for the largest percentage of total receipts. For example, if the principal business activity is "Grain mill products," the principal product or service may be "Cereal preparations."

If, as its principal business activity, the corporation: (1) purchases raw materials, (2) subcontracts out for labor to make a finished product from the raw materials, and (3) retains title to the goods, the corporation is considered to be a manufacturer and must enter one of the codes (2010-3998) under "Manufacturing."

Agriculture, Forestry, and Fishing

Code

0400 Agricultural production
0600 Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping

Mining

Metal mining
1010 Iron ores
1070 Copper, lead and zinc, gold and silver ores
1098 Other metal mining
1150 Coal mining

Oil and gas extraction
1330 Crude petroleum, natural gas, and natural gas liquids
1380 Oil and gas field services

Nonmetallic minerals, except fuels
1430 Dimension, crushed and broken stone; sand and gravel
1498 Other nonmetallic minerals, except fuels

Construction

General building contractors and operative builders
1510 General building contractors
1531 Operative builders
1600 Heavy construction contractors

Special trade contractors
1711 Plumbing, heating, and air conditioning
1731 Electrical work
1798 Other special trade contractors

Manufacturing

Food and kindred products
2010 Meat products
2020 Dairy products
2030 Preserved fruits and vegetables
2040 Grain mill products
2050 Bakery products
2060 Sugar and confectionary products
2081 Malt liquors and malt
2088 Alcoholic beverages, except malt liquors and malt
2089 Bottled soft drinks, and flavorings
2096 Other food and kindred products
2100 Tobacco manufacturers

Textile mill products
2228 Weaving mills and textile finishing
2250 Knitting mills
2298 Other textile mill products

Apparel and other textile products
2315 Men's and boys' clothing
2345 Women's and children's clothing
2388 Other apparel and accessories
2390 Miscellaneous fabricated textile products

Lumber and wood products
2415 Logging, sawmills, and planing mills
2430 Millwork, plywood, and related products
2498 Other wood products, including wood buildings and mobile homes
2500 Furniture and fixtures

Code

Paper and allied products
2625 Pulp, paper, and board mills
2699 Other paper products

Printing and publishing
2710 Newspapers
2720 Periodicals
2735 Books, greeting cards, and miscellaneous publishing
2799 Commercial and other printing, and printing trade services

Chemicals and allied products
2815 Industrial chemicals, plastics materials, and synthetics
2830 Drugs
2840 Soap, cleaners, and toilet goods
2850 Paints and allied products
2898 Agricultural and other chemical products

Petroleum refining and related industries (including those integrated with extraction)
2910 Petroleum refining (including integrated)
2998 Other petroleum and coal products

Rubber and misc. plastics products
3050 Rubber products, plastics footwear, hose and belting
3070 Misc. plastics products

Leather and leather products
3140 Footwear, except rubber
3198 Other leather and leather products

Stone, clay, and glass products
3225 Glass products
3240 Cement, hydraulic
3270 Concrete, gypsum, and plaster products
3298 Other nonmetallic mineral products

Primary metal industries
3370 Ferrous metal industries; misc. primary metal products
3380 Nonferrous metal industries

Fabricated metal products
3410 Metal cans and shipping containers
3428 Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products
3430 Plumbing and heating, except electric and warm air
3440 Fabricated structural metal products
3460 Metal forgings and stampings
3470 Coating, engraving, and allied services
3480 Ordnance and accessories, except vehicles and guided missiles
3490 Misc. fabricated metal products

Machinery, except electrical
3520 Farm machinery
3530 Construction and related machinery
3540 Metalworking machinery
3550 Special industry machinery
3560 General industrial machinery
3570 Office, computing, and accounting machines
3598 Other machinery except electrical

Code

Electrical and electronic equipment
3630 Household appliances
3665 Radio, television, and communication equipment
3670 Electronic components and accessories
3698 Other electrical equipment
3710 Motor vehicles and equipment

Transportation equipment, except motor vehicles
3725 Aircraft, guided missiles and parts
3730 Ship and boat building and repairing
3798 Other transportation equipment, except motor vehicles

Instruments and related products
3815 Scientific instruments and measuring devices; watches and clocks
3845 Optical, medical, and ophthalmic goods
3860 Photographic equipment and supplies
3998 Other manufacturing products

Transportation and Public Utilities

Transportation
4000 Railroad transportation
4100 Local and interurban passenger transit
4200 Trucking and warehousing
4400 Water transportation
4500 Transportation by air
4600 Pipe lines, except natural gas
4700 Miscellaneous transportation services

Communication
4825 Telephone, telegraph, and other communication services
4830 Radio and television broadcasting

Electric, gas, and sanitary services
4910 Electric services
4920 Gas production and distribution
4930 Combination utility services
4990 Water supply and other sanitary services

Wholesale Trade

Durable
5008 Machinery, equipment, and supplies
5010 Motor vehicles and automotive equipment
5020 Furniture and home furnishings
5030 Lumber and construction materials
5040 Sporting, recreational, photographic, and hobby goods, toys and supplies
5050 Metals and minerals, except petroleum and scrap
5060 Electrical goods
5070 Hardware, plumbing and heating equipment and supplies
5098 Other durable goods

Nondurable
5110 Paper and paper products
5129 Drugs, drug proprietaries, and druggists' sundries
5130 Apparel, piece goods, and notions
5140 Groceries and related products
5150 Farm-product raw materials
5160 Chemicals and allied products
5170 Petroleum and petroleum products
5180 Alcoholic beverages
5190 Misc. nondurable goods

Retail Trade

Building materials, garden supplies, and mobile home dealers
5220 Building materials dealers
5251 Hardware stores
5265 Garden supplies and mobile home dealers
5300 General merchandise stores

Food stores
5410 Grocery stores
5490 Other food stores

Automotive dealers and service stations
5515 Motor vehicle dealers
5541 Gasoline service stations
5598 Other automotive dealers
5600 Apparel and accessory stores
5700 Furniture and home furnishings stores

Code

5800 Eating and drinking places

Misc. retail stores
5912 Drug stores and proprietary stores
5921 Liquor stores
5995 Other retail stores

Finance, Insurance, and Real Estate

Banking
6030 Mutual savings banks
6060 Bank holding companies
6090 Banks, except mutual savings banks and bank holding companies

Credit agencies other than banks
6120 Savings and loan associations
6140 Personal credit institutions
6150 Business credit institutions
6199 Other credit agencies

Security, commodity brokers and services
6210 Security brokers, dealers, and flotation companies
6299 Commodity contracts brokers and dealers; security and commodity exchanges; and allied services

Insurance
6355 Life insurance
6356 Mutual insurance, except life or marine and certain fire or flood insurance companies
6359 Other insurance companies
6411 Insurance agents, brokers, and service

Real estate
6511 Real estate operators and lessors of buildings
6516 Lessors of mining, oil, and similar property
6518 Lessors of railroad property and other real property
6530 Condominium management and cooperative housing associations
6550 Subdividers and developers
6599 Other real estate

Holding and other investment companies, except bank holding companies
6744 Small business investment companies
6749 Other holding and investment companies except bank holding companies

Services

7000 Hotels and other lodging places
7200 Personal services

Business services
7310 Advertising
7389 Business services, except advertising

Auto repair; misc. repair services
7500 Auto repair and services
7600 Misc. repair services

Amusement and recreation services
7812 Motion picture production, distribution, and services
7830 Motion picture theaters
7900 Amusement and recreation services, except motion pictures

Other services
8015 Offices of physicians, including osteopathic physicians
8021 Offices of dentists
8040 Offices of other health practitioners
8050 Nursing and personal care facilities
8060 Hospitals
8071 Medical laboratories
8099 Other medical services
8111 Legal services
8200 Educational services
8300 Social services
8600 Membership organizations
8911 Architectural and engineering services
8930 Accounting, auditing, and bookkeeping
8980 Miscellaneous services (including veterinarians)

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